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## THE ECONOMIST'S SPIRAL<sup>1</sup>

The historian of another age is likely to appraise our own day as disturbed in thought, no less than restless in action. The shock of the Great War brought mental bewilderment with dislocated affairs. Accepted creeds were challenged as smug conventions, and primary faiths—wrenched from traditional security—groped for firm stands. Theology, politics, philosophy, economics, felt this upheaval. Like Serapion, the pious believer lamented the old anchorage and cried for a new god.

It was the basic social concept—the trend of human affairs—that suffered most. Seven years ago the doctrine of progress might have been fairly described as a scientific verity. Barring the pessimism of a philosophical cult, the receding postulates of Marxism and the occasional rationalist crying in the wilderness, there was no formal dissent from the principle of progressive betterment in human affairs. The pendulum was to swing far. In 1919 a regius professor of history, in the detachment of doctrinal review could declare:<sup>2</sup> “The progress of humanity belongs to the same order of ideas as Providence or personal immortality. It is true or false, and like them it cannot be proved either true or false. Belief in it is an act of faith.”

From this frank agnosticism there developed two variants. The one, an extreme rebound from implicit acceptance, was naturally enough sheer negation. Not progress but blind chance—even worse, outright retrogression—is the order of social movement. A century and a half ago, Adam Smith—as after him, the whole train of classical economists through John Stuart Mill—had indeed fashioned the concept of a retrograde as against a progressive or a stationary society. But the blight was specific and remediable: “the sensible decay” of “the revenue and stock of its inhabitants” making up “the funds destined for the maintenance of labor.”<sup>3</sup> The older economics, any more than the older philosophy, had no place for a necessitarian doctrine of social decline.

War gave way to Reconstruction, and the menace of arms yielded

<sup>1</sup>Presidential address delivered at the Thirty-fourth Annual Meeting of the American Economic Association held in Pittsburgh, December 27, 1921.

<sup>2</sup>Bury, *The Idea of Progress* (1920), p. 4.

<sup>3</sup>*The Wealth of Nations* (ed. Cannan), vol. I, pp. 73-75.

to the dislocation of peace. With the change, philosophical depression was succeeded by historical retrospect. The sensible form became a revival of the age-old concept of cyclical return. Less naive than the Stoic's doctrine of periodic destructions and rebirths, more complex than Vico's principle of reflux, less mystic than Nietzsche's vision of eternal recurrence—the essence of this new creed is that the course of human affairs follows not a trajectory but a spiral.

The composite origin of the doctrine appears in its two phases: the spiral may be horizontal or vertical. The one, with ear-mark of reaction, assumes a recurrent swing bringing man back again and again to the point from which he started; the other, still linked with the old optimism, pictures a spiral ascent, wherein "each stage of an upward progress corresponds in certain general aspects to a stage which has already been traversed."<sup>4</sup> Both are insistent that normal forces working in essentially like settings beget similar phenomena.

Color and warmth have been lent to this "neo-spiralism" by historic parallel. In particular, the accompaniments and sequels of the other "great war" of a hundred years ago disclose resemblances so startling that a recent investigator observes: "A student conversant with the earlier period often has an uncanny feeling of having previously lived through current events."<sup>5</sup> In currency disorders, in price fluctuations, in industrial disputes, in agricultural unrest, in trade depression, in social reaction—this likeness appears: "Everything goes, everything returns, eternally does the wheel of being roll."<sup>6</sup>

The parallelism in economic facts has been at least partially explored; but the likeness in economic thought has received little attention. Invoking the principle of historical relativity, an exhibit of resemblance might be expected. Opinion is an interpretation of life. Given corresponding conditions, like doctrines may be anticipated—differing only as the personal equation shades the image or as new instruments of precision render it more exact.

The rôle of the political economist in the Napoleonic contest and its aftermath was not influential, certainly not distinguished. Adam Smith's death three years before the outbreak of hostilities had made "less impression than the death of a bustling divine." The public regarded the *Theory of Moral Sentiments* as "a far superior work" to the *Wealth of Nations*, and calmly accepted the latter as "a sensible book."<sup>7</sup>

<sup>4</sup>Bury, *op. cit.*, p. 27.

<sup>5</sup>Buer, "The Trade Depression Following the Napoleonic Wars," *Economica*, May, (1921), p. 159.

<sup>6</sup>Nietzsche, "Zarathustra", III, xiii, §2; cited in Salter, *Nietzsche the Thinker* (1917), p. 169.

<sup>7</sup>Rae, *Life of Adam Smith* (1895), pp. 435-6.

A decade before, indeed, tradition has it that Pitt had come under Smith's influence, and thereafter "always confessed himself as one of Smith's most convinced disciples."<sup>8</sup> Mr. Rae has written of the young statesman "reforming the national finances with the *Wealth of Nations* in his hand," and Buckle long ago cited Pulteney's appeal to "the authority of Dr. Smith who, it was well said, would persuade the present generation, and govern the next."<sup>9</sup> But recent studies have tended to qualify this wholesale ascription. Rose insists that the influence of Adam Smith upon Pitt has been exaggerated;<sup>10</sup> Rees maintains that even in his administrative reforms Pitt was influenced "less by Adam Smith than by the Committee of Public Accounts (of 1785),"<sup>11</sup> and Kennedy, contesting the view that the *Wealth of Nations* brought to the world a new revelation of the principles of taxation, declares bluntly that Smith merely "gave a wide intellectual sanction to a set of opinions already very influential" and that "all the large changes (in taxation) since his day . . . have been made independently, or in spite of the influence of his ideas."<sup>12</sup>

Certainly, with the alarms of war, economic philosophy yielded to economic opportunism. From 1793 on, through Pitt's death in 1806, up to the end of the great struggle, the impress of Adam Smith—whatever it may have been—was felt in the world of thought, not in the domain of affairs.

Adam Smith's mantle descended upon Dugald Stewart. But with it came no direct access of practical influence. Reaction, born of the Terror, was in the air; and, discriminating critic and eloquent expositor though he might be, Stewart was not temperamentally of the stuff of academic martyrs. "I have been so uniformly impressed with a sense of the importance of my situation" (as professor of moral philosophy at Edinburgh)—he wrote in apologetic reply to Lord Abercromby's alarm—"that among all the interesting questions which have, during the last nine years, divided our political parties, I have never introduced the slightest reference to any of them excepting in the single instance of the African trade, on which I formerly expressed myself with some warmth;—and even these expressions I dropped from my course, as soon as it became matter of public discussion."<sup>13</sup>

Apart from Adam Smith and Dugald Stewart we search vainly in the period before 1800 for any considerable influence of economic opinion

<sup>8</sup>*Ibid.*, p. 404.

<sup>9</sup>*History of Civilization in England*, vol. I, ch. 4, p. 61.

<sup>10</sup>*William Pitt and National Revival* (1912), p. 183.

<sup>11</sup>*A Short Fiscal and Financial History of England, 1815-1918* (1921), p. 11.

<sup>12</sup>*English Taxation, 1640-1799* (1913), pp. 141-2; in Rees, *op. cit.*, p. 225.

<sup>13</sup>John Veitch, *A Memoir of Dugald Stewart in Collected Works of Dugald Stewart* (ed. Hamilton), vol. X, lxxiv.

upon public policies. Massie, never widely read, had long since been forgotten. Hume's *Political Discourses* had, a generation before, entered into the general equipment of the publicist and become mere common sense. Sir James Stewart's stately volumes gathered dust on the shelves. Godwin's *Political Justice*—destined to exercise a profound impress upon a succeeding generation—was accorded the neglect which Pitt observed could be safely imputed a work that sold for three guineas. Bentham, writing from the first—in Dumont's phrase—"never as the historian but always as the legislator,"—had shown his mettle, but hardly more. The *Essay on the Principle of Population*, two years after its publication, was still a sacrilegious lampoon for which its anonymous author, one Rev. Thomas Robert Malthus, should have been unfrocked.

There was, as there had been for a century earlier, a succession of economic compositions—some not without practical result. Young, Sinclair and Anderson made themselves felt in agricultural policies. Eden contributed to clearer thinking as to social conditions. Richard Price could point to the sinking fund with something akin to proprietary interest. Yet the first decade of the Napoleonic struggle ended with the economist, as such, neither prominent nor important.

The turn came in the second half of the war with the increasing acuteness of economic disorders and the greater interest in economic study. The Bank Restriction of 1798 and the ensuing derangement of the exchanges brought forth a flood of pamphlets in polemic criticism and defense, culminating in the Bullion Report and in Ricardo's definitive tracts. The price of corn fluctuated wildly with the interruptions of war—intensifying crop variations—and an "inquiry into the causes and remedies of the late and present scarcity and high price of provisions" became a literary habit. Pitt's fiscal necessities and the reluctant adoption of the income tax in 1799 precipitated a controversial war. Malthus took formal place as the best abused man of his day. The Berlin and Milan decrees revived, in new phase, an old discussion as to commerce and national well-being. The sinking fund was alternately magnified as a fiscal panacea and reviled as a national calamity.

Substantial as was this body of economic writing it lacked continuity and integration. Like the currency debate of the seventeenth century and the trade controversy of the eighteenth, pre-Ricardian literature of the nineteenth century figures, with bare exceptions, as the output of tract-writers and pamphleteers.

The saving elements were the concurrent growth of scientific consciousness and the vogue of economic study—tendencies associated with the name of Dugald Stewart. Unimportant in doctrinal contri-

bution, negligible in practical influence, the notable service of Stewart was in preserving the concept of economic science and in transmitting an ardent enthusiasm for its pursuit.

The small groups who from 1799 on gathered at Edinburgh in attendance upon his "separate course"—James Mill, J. R. McCulloch, Thomas Chalmers, the Earl of Lauderdale, Henry Brougham, Francis Horner, Francis Jeffrey, Macvey Napier, Sydney Smith, Archibald Alison—were the men who contributed most as text-writers, as reviewers and as journalists to the revival of economic study in England in the decade then beginning.

But the largest product of Dugald Stewart's lecture room was the prominence of economic criticism in the newly founded *Edinburgh Review*. The project was from the first designed to effect practical reform rather than to afford philosophical exercise. Undertaking to oppose in politics, in economics, and in jurisprudence that "timorous acquiescence in the actual system," which Walter Bagehot calls a habit of the early nineteenth century, the *Review* became something more than "the doctrinal organ of the whigs." In the field of economic relations, its editors attempted nothing less than the formation and spread of a sound public opinion. Issue after issue appearing with essay-like critiques from Francis Horner, Richard Jeffrey, Sydney Smith, Henry Brougham—a little later Malthus, James Mill, and McCulloch—the *Review* became the rostrum from which olympian judgment, sometimes biased, often truculent but rarely incompetent, appraised the economic writings and happenings of the period.

From the new consciousness proceeded scientific dignity and popular interest. Adam Smith had used the term the "science" of political economy and in the next generation, thanks to Stewart's teaching and Say's writing, the phrase had come into easy use. But from 1810 on it acquired meaning and force. The fourth edition of the *Encyclopaedia Britannica* in that very year carried an expository article on "Political Economy." A coterie gathered about Ricardo's breakfast table, and personal regard cemented intellectual sympathy. Doctrinal controversies were initiated and conducted with spirit—a remarkable exhibit of this activity, the long missing and much desired manuscript of Ricardo's *Notes on Malthus* having happily been recovered during the past summer and being now in process of publication."

Academic recognition, anticipated in Malthus' appointment at Haileybury in 1807, was more fully accorded by Pryme's lectureship at Cambridge in 1816 "to facilitate the study of a science hitherto inaccessible without the most arduous perseverance," even though subject to the condition, indeed, that the lectures be not given at an earlier hour

<sup>14</sup>See paragraph under Notes of this issue of the REVIEW.

than twelve o'clock, lest they should interfere with other fixtures.<sup>15</sup> Finally, in 1821, the Political Economy Club—to whose honored centenary this Association within the last month has sent its message of congratulation—was organized nominally to support the Merchants' Free Trade Petition of 1820, but really, as its first resolutions set forth, to effect the formation of a society for promoting the knowledge of political economy.<sup>16</sup>

The counterpart of scientific consciousness was popular vogue. In 1811, Boileau compiled his *Introduction to the Study of Political Economy* "particularly for those to whom rank or fortune hold out the noble prospect of being one day called to legislate for their fellow-subjects."<sup>17</sup> At the other extreme Mrs. Marcet, a few years later, presented her *Conversations in Political Economy*—destined to run through many editions—in order to bring the science within the reach of any "intelligent young person, fluctuating between the impulse of her heart and the progress of her reason, and naturally imbued with all the prejudices and popular feelings of uninformed benevolence."<sup>18</sup>

Maria Edgeworth recorded in 1823 that political economy was displacing the ordinary disciplines as the necessary equipment of nursery governesses and that "it had become high fashion with blue ladies to make a great jabbering on the subject."<sup>19</sup> In 1823 McCulloch trumpeted: "The time cannot be far distant when a knowledge, or at least some little attention to, Political Economy will be considered as necessary for a legislator as a knowledge of Greek"—in itself no mean exhibit of the economist's spiral.<sup>20</sup> And almost at the same time an anonymous author presented "to the enlightened ideas, and acute perception of the American people" *A Treatise of Political Economy . . . . in the form of a Romaunt, for the more pleasing accommodation of readers*; wherein the subject "presumed to be considered upon strict philosophical, mathematical, and geometrical principles" is explained in a series of letters to Aristippus from Aristander, "perceived in a deep vision."<sup>21</sup>

The reflex of scientific pursuit and popular favor was practical effect. In the five years that followed Waterloo—roughly, the period of post-bellum reconstruction—political economy exercised a practical influence never before equalled. In every phase of the nation's life there was enactment or repeal in accord with "the verdict of the econ-

<sup>15</sup>*Autobiographic Recollections of George Pryme* (1870), p. 121.

<sup>16</sup>*Political Economy Club: Minutes of Proceedings, etc.*, (1921), p. 1.

<sup>17</sup>Preface, p. v.

<sup>18</sup>Preface, p. ix.

<sup>19</sup>*Life and Letters of Maria Edgeworth* (ed. Hare, 1895), vol. II, p. 65.

<sup>20</sup>*Autobiographic Recollections of George Pryme*, p. 127.

<sup>21</sup>Baltimore, 1824.

omists"—sometimes even in vindication of rejected advocacies. The income tax which in 1798 Pitt had imposed and in 1803 reimposed was in 1816 repealed and the very assessment records burned. The sinking fund after two decades of financial legerdemain was reconsidered in 1819 and reconstituted in 1823. The House of Commons in 1811 solemnly recorded its dissent from the conclusions of the Bullion Report, only with equal solemnity in 1819 to reverse its action. Tooke's draft of the Merchants' Petition, favorably received by Lord Liverpool's government in 1820, established the political rallying point for "the principles of a Free Trade policy" which a generation before Adam Smith had regarded "as absurd as to expect that an Oceana or Utopia should ever be established" in Great Britain.

How from this high estate, political economy in the next decade fell to disregard and neglect is a familiar but painful chapter in the history of our science. Inquiry gave way to dogmatism and analysis was displaced by disputation. Intellectual independence was sapped and scientific doctrine degenerated into barren dialectics, even into class advocacy. Cobbett, Place, Owen and the sturdy group—lately come into its own as the "English Socialist School"—exposed "the inherent defects and injustice of the existing system." Mallet could write of accuracy and minuteness of definition as part of "the coxcombrity of the Political Economists" . . . continuing thereafter, in Elia's phrases, "their minds are never caught in undress or by glimpses; their stocks of ideas are in perfect order and completeness. You cannot cry halves to anything they find. Between the affirmative and negative there is no border land with them. Their conversation is a book."<sup>22</sup>

It was before this august company that McCulloch could assert "that there could not be a farthing more capital in the country if the national debt had not been incurred";<sup>23</sup> that Tooke could propose "tea as a perfect object of taxation, because it would hardly be considered as a necessary of life, and the quantity required by each individual is so small";<sup>24</sup> that Senior could maintain in opposition to the Factory bill of 1837 that the profits of the operators accrued only in the final hour, and that "the Factory bill was altogether mischievous."<sup>25</sup>

The influence extended beyond "The Caledonians." In 1833 Harriet Martineau assured early Victorianism that "The case of those wretched factory children seems desperate; the only hope seems to be that the race will die in two or three generations, by which time machinery may

<sup>22</sup>*Political Economy Club: Minutes of Proceedings*, etc., vol. VI, p. 273.

<sup>23</sup>*Ibid.*, p. 226.

<sup>24</sup>*Ibid.*, p. 223.

<sup>25</sup>*Ibid.*, p. 274.



be found to do their work better than their miserable selves.”<sup>26</sup> And James Stirling—one of “the popular advisers of the middle class”—writing a little later but reflecting a like spirit, could look forward to a time when “the fanatical faith of the working classes in the artificial mechanism of combination will give place to trust in the wiser, because more natural, system of individual competition; and the hiring of labor, like the exchange of commodities, will be set free, to be regulated by the Heaven-ordained laws of Supply and Demand.”<sup>27</sup>

## II

Let us turn from this century-old story to consider the rôle of the economist—of the American economist—in our own Great War, and in its aftermath. The first fact to arrest attention is the deeper consciousness, the more articulate form, the larger recruitment of the science. In 1917 political economy in the United States could fairly rank with any of its sister sciences in the definiteness of its aim, in the detail of its exposition, in the range of its influence, in the ardor of its devotees.

In outright numbers and in relative competence the fraternity had made notable advance. Compactly organized in scientific association, supplied as to assembled material and equipped as to technical journals, animated with high sense of public responsibility, established in academic office with large student groups affording apprentices and offering discipleship—the economist had come to fill a distinctive place in the nation’s life. Increasing requisition by public service and sensational bidding-up by private enterprise had so far dissipated the old seclusion that prospective scientific impoverishment rather than present public neglect constituted his concern. With the greater specialization of social effort nation, state, and city were utilizing the economist’s counsel and enlisting his personnel. In Washington this was physically manifest. The Cosmos Club, like Piccadilly Circus, was the point at which one might stand and see his world pass.

The permanent Census Office, the reconstituted Department of Labor, the rehabilitated Tariff Commission, the enlarged Department of Commerce, the reorganized Federal Trade Commission, the expanding Department of Agriculture were so many stages in the economist’s progress. Not always as expertly staffed as might be, hampered often by political exigency, they reflected a widening infiltration. There were positive triumphs too. Workmen’s compensation had become a

<sup>26</sup>*Autobiography* (ed. Chapman, 1877), vol. III, p. 87; cited in Webb, *Industrial Democracy* (1897), vol. II, p. 608, n.

<sup>27</sup>*Trade Unionism* (1869), p. 55; cited in Webb, *Industrial Democracy*, vol. II, p. 653.

part of our industrial scheme. Mediation and arbitration were finding use in systematized form. Collective bargaining, at least as a phrase, had entered into business terminology. The income tax had been incorporated into the national revenue system. The theory of monopoly price was definitely accepted as to the regulation of non-competitive industry. The Federal Reserve act had repaired the glaring defects in our banking organization. The Federal Farm Loan project gave assurance that agricultural credit was to become available.

At our entry into the war the opportunity would thus seem to have been present for the exercise of a large influence upon affairs. The course of the struggle had made it evident that eventually the race must be to the economically strongest; and the experiences of the belligerents had shown the penalty of economic bungling.

In the physical sciences there was swift mobilization and quick tender and ready acceptance of scientific guidance. As to the economists there is a different story. There had been no preparedness in the three fateful years that preceded our entry into the World War, and there was no collective proffer after we had entered. Even more, there was at the outset no instinctive recourse to the economist on the part of public authority, and but slow and half-hearted requisition of his services thereafter.

The results were twofold—both unfortunate. On the one hand, failing systematic mobilization, a wasteful individualism prevailed. The American economist either ate his soul out in enforced inactivity; or, the situation becoming intolerable, accepted subordinate, often clerical position, rather than do nothing at all. And on the other hand, his proper rôle was taken over in part by a group of transmuted men of affairs; in part by a corps of business technicians, distinguished from the economic investigator by the more austere title “statistician.”

Of the whole company of American economists, including all of those whose names we delight to honor, not a single figure was in the first instance chosen or was thereafter permitted to exercise formative, determining influence in the economic conduct of the war. Services of great usefulness, of high importance, were rendered by almost every member of our body, and I should fail lamentably in my purpose did I seem to be insensible of this. But nowhere and at no time was the opportunity afforded to shape and direct. And on the other hand, in instance after instance, constructive discretion and responsible leadership were vested in men whose excellencies, high as the heavens, were yet marked by absence of those qualities which we insist distinguish the scientifically equipped economist.

This is no light statement. But it has not been hastily conceived nor recklessly phrased. Over and above the great company of those

usefully, but administratively, engaged—one, two, perhaps three names come to mind as of economists who by circumstance or designation may seem to have been permitted to exercise what I have ventured to call formative influence. But closer scrutiny will establish even as to these, that the notable service which each in his respective field was able to render was not because but in spite of the range of discretionary power.

This dispossession of the economist would have resolved itself into a mere slighting of sensibilities, had it been justified of the result. But the exhibit here is unmistakable. If we refuse to be flattened out by the “we won the war” argument, garnished with its “hells” and “damns,” and survive the more subtle “it was necessary under the circumstances” fallacy, with its aura of officialdom, the unpleasing fact stands forth that the history of the war discloses a series of costly economic errors that expert guidance should have avoided.

The four great areas of economic intervention in our war activities were:

1. Labor adjustment.
2. Price-fixing.
3. Revenue provision.
4. Banking administration.

In each of these, government practice was shaped—either by deliberate policy or opportunist drift—independent, even in disregard of the economist’s opinion. In the execution of such practices the economist was utilized and his influence was exercised. But the formative policy was elsewhere initiated and the controlling guidance was elsewhere lodged.

The particulars may be briefly reviewed:

1. The history of labor adjustment in the war is a complex of opportunist adaptation of a peace-time mechanism, imperfectly comprehended, to a war-time requirement, inadequately visualized—the whole shot with a premature idealism.

In 1917 the labor world was still the least well-understood part, in structure and function, of our economic organization. The simpler magnitudes—distribution, unionization, wage levels, were imperfectly enumerated, and the deeper elements—the interaction of workers as to unionism, localities, and trades—were not even apprehended. Where the expert would have trodden cautiously, the amateur rushed in unhesitatingly. There resulted a series of wasteful ventures, out of which the bare concept of a solution—a common labor policy in all war industry—did not emerge until the war was half over and the actual realization of which was still unattained when the war was over.

Just as the problem of labor distribution was met with an unin-

formed empiricism, so the problem of labor remuneration was approached with a premature idealism. From insistence that the outbreak of war must not serve as a pretext to sweep away accredited industrial defences, to endeavor that the exigencies of war be used to elevate wage levels to an imperfectly ascertained, inexpertly administered standard of comfort—this is a far cry, the sharp echoes of which were certain to ring in the nation's ears long after the event.

2. Price-fixing has been recently described as "one of the most important economic novelties that resulted from the war."<sup>28</sup> It was novel not in the sense of a new and untried device: but rather, in that it jettisoned accredited economic opinion. No rubric in our creed seemed more secure, none more safely an induction from historical experience, nor more firmly buttressed upon primary economic axioms than the unwisdom of a legal price maximum.

An appeal to doctrinal authority is no sufficient logic in the political economy of war. *Inter arma silent leges* may be invoked as to opinion as well as to affairs—when the nation's existence is in the balance. A distinguished leader in the financial world has defended a somewhat like election in an epigram: "It was patriotism that for the time being displaced or disregarded economic laws or principles."<sup>29</sup> Obviously, we have to do here with the fineness of our scientific texture. Even patriotism may not flout the conservation of energy or the combustion of gases or bacterial incubation. Certainly economic uniformities, even the best of them, are not as the corner-stones of physics, chemistry and biology. But before propulsion into the outer darkness they are, at least, entitled to a day in court with counsel for the defense from their own exponents. And this as to the adoption—adoption, remember, not operation—of the policy of price-fixing was denied the economist.

A competent participant, judicial but sympathetic, has said in review: "Government price-fixing during the war was not uniform in its objects, and was little guided by principles or deliberate policies. In the main, it was opportunist, feeling its way from case to case."<sup>30</sup> This concerns a later matter, into which—tempting as is the invitation—it is not permitted to enter. But however faint the praise as to practice, incomparably less even than this may be said as to the spirit of entry. There were definite ends to be attained: the protection of the public in fuel and food; the protection of the government in essen-

<sup>28</sup>Simpson, "Price Fixing and the Theory of Profit" in *Quarterly Journal of Economics*, November, 1919, p. 138.

<sup>29</sup>James B. Forgan, in *AMERICAN ECONOMIC REVIEW*, March, 1920, Supplement, pp. 177-8.

<sup>30</sup>Taussig, "Price-Fixing as seen by a Price-Fixer," in *Quarterly Journal of Economics*, February, 1919, p. 238.

tial materials. To these ends there were alternative means: administrative bargaining on patriotic basis; commandeering, potential or actual; non-inflationary financing; licensing of fuel supply; control of transport facilities; appropriation of war profits. It is by no means clear that the objects in view would have been better served—even as well served—by any or all of these methods as by direct price-fixing. But a statement to the contrary is quite as unwarranted. Until there has been a fuller inquest—attended by more than ordinary difficulties—in which will be weighed the consequences of what was done, compared with the possible results of what might have been done—the final verdict must be withheld.

That, however, which is certain, is that the determination of policy—or, if a less conscious procedure be emphasized, the initial step—in essence, a radical departure from accepted economic opinion and practice—was taken deliberately, almost leisurely, without either that expert canvass of the problem or that consultative regard for scientific opinion which even in war time is the requisite of administrative efficiency.

3. The nation approached its war financing with the fairest prospect of actual practice conforming to sound theory. The necessity of revenue provision on a vast scale had been admitted; the policy of a relatively large ratio of taxes to loans had been adopted; the danger of “the very serious hardship which would be likely to arise out of inflation” had been set forth in a presidential utterance; expert counsel had been summoned in the preparation of the tax schedule.

Definite adherence to this program would have meant sound war financing. But at an early stage the straight hard road of taxation and funding was left for the treacherous ease of “finance by bank credits.” Thereafter our war financing had primary regard for fiscal convenience and business advantage to the neglect of general well-being. To supply the exchequer readily and painlessly with ample funds, bank credit was utilized in the form of certificate borrowing—with the consequences of deposit and note inflation, rising prices and social injustice.<sup>31</sup>

A careful student of “the political economy of war” has pointed out that “finance by bank credits”—“inherently bad” and to be restricted “within the narrowest possible limits,” though it be—is likely to be resorted to even by strong governments at war, because of “the fear of popular resentment against high taxation in an overt form” and “the fear that an offer of very high interest upon loans might make upon neutrals an impression of financial weakness.”<sup>32</sup>

<sup>31</sup>Cf. the present writer’s “Inflation” in *The Annals* (Phila.), May 1920.

<sup>32</sup>Pigou, *The Political Economy of War* (1921), pp. 110-1.

Neither of these factors was present in our experience to a degree sufficient to justify resort to bank credit financing. The possible attitude of neutrals did not even figure; while public disposition towards increased tax burdens was grim acceptance, tinctured with nothing worse than that degree of grumbling which in matters of taxation is the mark of a decent self-respect. In so far as our necessary resort to inflation financing can be explained at all, it is traceable to that "borrow cheap" policy, born of false analogy, fiscal absolutism and neglect of expert opinion, which in the Civil War lashed us with fiat currency, and in this war scourged us with fiat credit.

The amazing feature of this process is the completeness with which it remained unavowed by its sponsors and undiscerned by the public. The certificate of indebtedness which in the seven weeks interval between the Revenue act of March 3, and the First Liberty Loan act of April 24, 1917, passed from its traditional rôle as a short-time investment obligation issued in anticipation of the proceeds of a funded loan designed to meet extraordinary expenditure, to an habitual device for the extension of bank credit in the form of government deposits by subscribing financial institutions, continued to be officially described as a mere convenient mode of avoiding monetary strain, with never an intimation of wider significance.<sup>33</sup>

The device of permissive "payment by credit," worked out we are told,<sup>34</sup> in connection with the First Liberty Loan at a Sunday conference in May, 1917, between representatives of the Treasury, of the Federal Reserve Board and of the New York Liberty Loan Committee, was extended to certificate borrowing as a whole, with consequences of the utmost gravity, almost by administrative tolerance.

There was no intimation that in essence a new borrowing policy had been inaugurated, with neither specific authorization nor general comprehension; that the certificate of indebtedness had been transformed into the British Treasury Bill on Ways and Means Advance, unknown and untried in our experience, and that by its lavish use we were heading straight for the evils which the Cunliffe Commission a year before had explored and made public, as brilliantly as its great predecessor the Bullion Committee had done a century earlier as to a related problem.<sup>35</sup>

<sup>33</sup>Cf. the present writer's *War Borrowing* (1919), ch. II.

<sup>34</sup>R. C. Leffingwell in "Proceedings of Academy of Political Science" (New York), June, 1920, p. 29.

<sup>35</sup>Mr. Paul M. Warburg, formerly a member of the Federal Reserve Board, in an interesting paper on "Inflation as a World Problem" (*Proceedings of Academy of Political Science*, New York, June, 1920, p. 117) has dissented from contentions similar to the above, expressed by me in another connection (*ibid.*, p. 62), and has expressed doubt as to whether "a certificate of indebtedness in itself, is an

An advocate of our war financing has written of such development as "tendencies of which the Treasury officials themselves were probably only dimly aware."<sup>36</sup> Ricardo, to a like plea in extenuation, reviewing the entrenched stolidity of the directors of the Bank of England during the first decade of the Restriction, made ringing answer: "I do, therefore, acquit them of being influenced by interested motives but their mistakes, if they are such, are in their effects quite as pernicious to the community."<sup>37</sup>

4. Beginning with the flotation of war loans at an artificially low rate, the Treasury was driven to support the "borrow cheap" policy both as to the bond buying and certificate issue by insuring a low preferential discount rate at the federal reserve banks. Made possible by political domination of an essentially non-political institution, this misuse of the federal reserve system as the handmaiden of the Treasury was attended with severe penalties.

There was injected into the exchange mechanism of the country a great body of deposit and note currency entirely unrelated to commercial needs and serving fiscal rather than monetary purposes. With inflation came gross depreciation in the monetary standard and distress-causing rise in living costs. Higher prices of materials and services added to the cost of war and weighted its overhang. Excessive gains were reaped, unrelated to valid enterprise. Undeserved losses were suffered by the depreciation of public loans. Worst of all, cheapened credit stimulated extensive speculation, with still further rise in prices and capital shortage.<sup>38</sup>

instrument of inflation and the funded debt is not." As practical a financier as Mr. Warburg must however recognize that the question in issue is not as to hypothetical possibility but as to the positive occurrence. That certificate borrowing at an artificially low rate "by credit," and therefore of necessity from the banks, was responsible, during the war and more particularly after the armistice, for a vastly greater degree of inflation than would have attended funding operations, at rates dictated by the market valuation of capital and in forms designed for investment absorption—is, I fear, a conclusion which the inquiries of the Cunliffe Commission, the penetrating analyses of Professor Pigou, and a mass of evidence in England and the United States, remove from further controversy.

As to Mr. Warburg's statements that our borrowing machinery was "the best that could have been devised" and that "no other way was open to pay for the war"—valuable as are such opinions coming from one "right in the midst of it"—I can only anticipate the views developed below, that scientific verity and not assumed expediency is the ultimate standard by which fiscal policy even in war-time, must be appraised.

<sup>36</sup>E. L. Bogart, in *Political Science Quarterly*, March, 1920, p. 160.

<sup>37</sup>*Works* (ed. McCulloch), p. 288.

<sup>38</sup>Cf. the present writer's "Fiat Credit and High Prices" in *New York Times*, October 28, 1919; also "Federal Reserve Notes and High Prices" in *Magazine of Wall Street*, January, 1920.

The Federal Reserve Board, shorn of its essential power to control expansion at a critical stage, thus became an impotent witness to an orgy of credit and currency inflation, which the belated resort to higher discount rates—literally compelled by the imminence of a threatened gold standard—was able to correct only through the wastes and losses of an imperative deflation.

Free supply of bank credit in connection with our borrowing in the period of belligerency may perhaps be explained—though not justified—by the exigencies of war. But not even this plea is admissible to the resumption of such policies after the Armistice and the continued maintenance of artificially low discount rates. Designed originally to facilitate the anticipation of war loans and taxes, the preferential discount rate operated during the war as an instrumentality for “financing by bank credit.” After the war, it degenerated into a device for salvaging the “borrow cheap” entanglement and for masking the existence and staving off the maturity of a huge floating debt.

The procedure of credit issues to balance current budgets, so violently reprobated in the case of European states, continued in essence our practice during the post-Armistice months. Instead of using both fiat currency and fiat credit we restricted ourselves to the more insidious form. The demoralizing effect of the two methods upon the social structure has differed only in degree.

### III

In the security of retrospect it is tempting to indulge in counsel of perfection. The din has quieted, the fever subsided and practices for which precedent was lacking and occasion was imperative are likely to be estimated in the wisdom of hindsight. John Bright declared of his opponents: “They always have been wrong; they always will be wrong and when they cease to be wrong they will cease to be the Tory party.”<sup>39</sup> It is right to guard against this—to forego outright stricture and to temper absolute valuation by relative allowance. But withal there must be just weight and measure. It would be reckless to assert that the intricate problems of our war economy would have been fully served or properly solved by the scientist in responsible control. The economist will not wish to be charged with Canning’s criticism of Lord Sidmouth: “Carrying into politics the indefinable air of a physician inspecting the tongue of the state.”<sup>40</sup> There is always the rare statesman like Peel who “in three cases out of four knew a thing just in time, after it was known to the philosophers, before it was

<sup>39</sup>Alington, *Twenty Years* (1921), p. 22.

<sup>40</sup>*Ibid.*, p. 32.



known to the empirics.”<sup>41</sup> But it remains certain that the economist’s grasp of the immediate subject-matter, his acquaintance with comparable experience, his mental habit in social valuation give him distinctive equipment for the formative service which was denied him.

Divested of the opportunity to shape economic policies—partly through his own inertia, partly through political neglect—the rôle of the political economist becomes that of a constructive critic. Resolute against the negative quibbling of the embittered faultfinder, watchful against the soporific emanations of the throne—his mission must be fearless, unequivocal assertion of the verities of his science, as against the prejudice of the moment, the pressure of class interest, or the quietism of office.

He must seek, increasingly, to lay bare the mistakes that have been made and impute them to the proper source, whether of practices or of persons—this in no vindictive sense but in order that there may be a strict assignment of responsibility, to the end of abandoning unsound practices, of devising appropriate remedial measures and of avoiding like pitfalls in the future.

The finest traditions of his past enjoin this: It is the call of Adam Smith, inveighing in behalf of freedom of trade against “the clamorous importunity of partial interests.” It is the summons of Malthus denouncing the poor laws of England as a set “of grating, inconvenient and tyrannical laws.” It is the insistence of Ricardo, protesting against the misuse of the sinking fund. It is the acridity of John Stuart Mill, in condemnation of the inflationist proposals of the Birmingham currency school.

In this sense, the restraint of the American economist in the war period is not exhilarating: a record of substantial practical service in many directions, rendered with fidelity, devotion and efficiency, but service essentially contributory and acquiescent. Of that resolute intractability against scientific error, uncompromising and outspoken, which must distinguish the economist as sentinel and critic—there is in the period of actual belligerency little evidence.

This involves no charge of intellectual cowardice.<sup>42</sup> In the cynicism of world collapse, George Brandes has lately revived an epigram imputed to Frederick the Great: “I begin by taking. Then I always find men of science to prove the justice of my claim.” The possibility is peculiar neither to time nor place. There is danger of scholarship becoming official in a democracy no less than in an absolutism. Public passion cracks as sharp a whip as any despot, and the applause of the

<sup>41</sup>*Ibid.*, p. 194.

<sup>42</sup>Cf. the present writer’s “Do Government Loans Cause Inflation?” in *Annals* (Philadelphia), January, 1918.

market-place is as grave a menace to independent thought as the favor of the throne.

Of these things the American economist stands absolved. Less clear is the extent to which he held resolute for scientific verity as against practical compromise. "The function of science is to expose the naked facts," a recent scholar has declared. "It is for politicians to decide how to resist developments which are judged to be economically undesirable."<sup>43</sup> In the economics of war, governmental policy is beset by two opposed forces. On the one hand is opportunism and practicability: opportunism in using the stress of war need to accomplish ends in doubt; practicability in meeting the war strain with least trouble and resistance. On the other hand is scientific proof and economic law, rugged and dure, straight and narrow, serving the public need with measures conceived solely with respect to the social calculus, and hewing to this line even with struggle in making and difficulty in carrying out.

Something of our opportunity here was surrendered by prematurity of pronouncement; something was frittered away by indulgence in insecure dicta. In the main, however, it is true that the war-time reserve of the economist proceeded from that ready assent to the policy and practices of authority which, in time of great national peril, is the instinct of democracy. At a time when "public opinion could largely be disregarded because public assent could be assumed," the economist as alert scientist was submerged in the economist as docile citizen.

For the post-Armistice period there is a different story to tell. The war won, the economist regained his poise. Realizing that the doctrine of practical necessity can do yeoman service in defense of unsound war-time policies, but that it may not be as securely invoked in the calmer years that follow; supplied with data before lacking or inaccessible—he became vigilant and articulate.

Analysis established the clear fact that the United States had financed the war and its aftermath largely by reliance upon bank credit. Inflation, theretofore "a high-brow fancy of the professors"—to be tolerantly ignored by the public, to be summarily dismissed by men of affairs, and to be held forth bogey-fashion as a warning against non-adoption of official policies—was exposed as an avoidable evil of our post-war economy, contributing to high prices, business profiteering, speculative excesses and social disquiet. The Federal Reserve Board's belated recourse to higher discount rates in correction of an overextended credit structure was indicted. The naive assumption of industrial underproduction—dearly beloved of financial column writers

<sup>43</sup>M. Elsas, in *Economic Journal*, September, 1921, p. 333.

—was cut off in its prime by definitive statistical exhibit. The obscurities of the Pittman Silver Purchase act were illumined and the consequences, actual and prospective, of that remarkable measure exposed. The importance of prompt return to normal distributive methods and ordinary price mechanism was emphasized—in face of strong resistance. The penalties of emotionalism in governmental labor policies were made clear, and, at the same time, bar put to the exploitation of trade depression in behalf of anti-unionism. Emphatic as to the error of retaining blunderbuss war taxes in a peace-time economy, there was insistence that the ideals of fiscal justice—confused by the shrill chorus of the market place, even shaken by uncertain tones from our own spokesmen—must determine the nation's revenue system.

In short, the economist has filed formal caveat against recourse to the argument of assumed expediency and momentary opportunism in defense of war policies which are theoretically vulnerable. He has insisted that expediency is a subjective and relative term, which one man regards as such and another will deny, and that as soon as we leave the safe moorings of that which is scientifically sound—we are adrift. He recalls that Secretary Chase doubtless deemed the green-back unsound “in theory,” but justified it as a practical expedient. So too Mr. Bryan's silver proposals and a hundred dangerous ventures with which we have from time to time been tempted. His position is, in a word, that for an administrator to engage in a theoretically unsound practice and to defend it on the score of practical necessity reduces the matter to a rigid calculus, as to which—until the final outcome—official opinion is worth as much, but only as much, as that emanating from any other equally competent quarter.

#### IV

The economist's task is far from done; but it enters upon a new phase. In the political economy of war, as of peace, time holds the bank. Whatever the lapse, in the end truth comes into its own. Too late to change the outcome, all the more is the true prophet acclaimed. The clear errors, even the hard reactions of mistaken war and post-war policies have begun to appear. Much more, perhaps, awaits. With the disclosure must come—unless all signs fail—a wider interest in economic study, a tremendous gain in the scientist's reputation. The prophet as seer may be without honor; but not the prophet as victor. The market place, smarting in its hurt, is quick to magnify the virtue of him whose neglected counsel, it comes to appear, might have softened, perhaps warded off, the blow.

More than once, economic experience has developed the inconvenient

habit of exalting the horn of "the professors," and of vindicating scientific opinion as against economic opportunism. But this time the issues have been larger, the alternatives sharper, the penalties costlier. It will be surprising if the rebound is not greater.

Political economy reached its heyday in the decade following the Napoleonic struggle. It did so because great economic and social problems—the dislocation of world upheaval—pressed imperatively for settlement upon a world disillusioned by bitter experience as to the wisdom of its practical men, and expectant in the light of justified forecast as to the reasoning of its economic thinkers. Public opinion became sensible as never before that the principle of general causation figured in the business of getting a living; that times were bad not merely by chance; that high prices, falling exchanges, agricultural distress, industrial unemployment, burdensome taxes, resulted from the pursuit or from the neglect of positive policies; that a group of inoffensive tractarians, then barely beginning to call themselves "political economists," had given specialized study to such matters and had time and again sounded warning note, and that therefore it might be a prudent thing to learn what this was about and to pay some greater regard to the spokesmen.

So, too, in the later aftermath of another cataclysm the world stands, irresolute and hesitant perhaps, but none the less receptive for economic counsel. The public mind is in scapegoat-making mood—and the empiricist is its sin-offering. As false priests are expelled from the temple, new ones will be installed. Tested as acolyte, the economist awaits induction.

## V

Uninfluential in formative policy, uncompromising as scientific protestant, vindicated by outright event, to be acclaimed as guide and prophet—the spiral holds. One final phase remains—relapse into formalism. Will the parallelism obtain even here? Shall we be witnesses to, even participants in, another classical political economy—with all the excesses that the term implies?

The answer turns upon the degree to which conscious purpose will deflect the normal trend. If the economist, heady with larger place, foregoes his birthright—the horoscope is cast. Larger practical influence, wider popular interest, artificial rigidity of utterance, relapse into paradox-like dicta, proneness to definite forecast, intentness upon doctrinal vindication, dullness to new evidence—these, as a century before, will be the stages in his undoing. From class advocacy in its

vulgar sense he will be saved; from the more subtle contagion of post-war reaction he will not be immune.

But this need not be so. If the economist, tutored by his past, maintain his full scientific stature, toiling laboriously in the assembly of data, formulating trial hypotheses with caution, abstaining religiously from armchair theorizing, subjecting tentative uniformities to rigid verification, fearless in the knowledge that is power—he will preserve his scientific vantage with widening range and profounder impress. By the sheer virtue of his scholarship, will he prevail upon affairs.

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